

**REPORT OF THE AUDIT OF THE  
OWEN COUNTY  
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period  
April 25, 2008 Through April 29, 2009**



**CRIT LUALLEN  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**OWEN COUNTY**  
**SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period**  
**April 25, 2008 Through April 29, 2009**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Taxes for the Owen County Sheriff for the period April 25, 2008 through April 29, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$5,252,677 for the districts for 2008 taxes, retaining commissions of \$199,172 to operate the Sheriff's office. The Sheriff distributed taxes of \$5,050,150 to the districts for 2008 taxes. A refund of \$14 is due to the Sheriff from the taxing districts.

**Report Comments:**

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Tax Receipts
- Receipts Should Be Batched Daily, Posted To A Daily Checkout Sheet, And Deposited Daily

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Carolyn Keith, Owen County Judge/Executive  
Honorable Zemer Hammond, Owen County Sheriff  
Members of the Owen County Fiscal Court

Independent Auditor's Report

We have audited the Owen County Sheriff's Settlement - 2008 Taxes for the period April 25, 2008 through April 29, 2009. This tax settlement is the responsibility of the Owen County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Owen County Sheriff's taxes charged, credited, and paid for the period April 25, 2008 through April 29, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 11, 2009, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Carolyn Keith, Owen County Judge/Executive  
Honorable Zemer Hammond, Owen County Sheriff  
Members of the Owen County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Tax Receipts
- Receipts Should Be Batched Daily, Posted To A Daily Checkout Sheet, And Deposited Daily

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

November 11, 2009



OWEN COUNTY  
ZEMER HAMMOND, SHERIFF  
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period April 25, 2008 Through April 29, 2009

<u>Charges</u>	Special			
	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 472,341	\$ 855,866	\$ 2,212,333	\$ 492,527
Tangible Personal Property	20,568	46,246	83,578	54,662
Fire Dues		334,160		
Increases Through Exonerations	157	285	737	164
Franchise Taxes	124,490	252,656	542,436	
Additional Billings	26	126	120	26
Penalties	4,179	7,694	19,390	4,873
Adjusted to Sheriff's Receipt	138	250	637	140
Gross Chargeable to Sheriff	621,899	1,497,283	2,859,231	552,392
<u>Credits</u>				
Exonerations	1,954	3,542	9,148	2,059
Discounts	7,144	17,052	33,283	7,893
Delinquents:				
Real Estate	7,967	38,541	37,314	8,307
Tangible Personal Property	1	1	2	2
Franchise Taxes	11	25	44	
Unpaid Fire Dues		103,838		
Total Credits	17,077	162,999	79,791	18,261
Taxes Collected	604,822	1,334,284	2,779,440	534,131
Less: Commissions *	25,992	50,132	100,060	22,988
Taxes Due	578,830	1,284,152	2,679,380	511,143
Taxes Paid	578,419	1,283,476	2,677,532	510,723
Refunds (Current and Prior Year)	411	690	1,848	420
Refund Due Sheriff		**		
as of Completion of Audit	\$ 0	\$ (14)	\$ 0	\$ 0

\* And \*\* See Next Page.

The accompanying notes are an integral part of this financial statement.

OWEN COUNTY  
ZEMER HAMMOND, SHERIFF  
SHERIFF'S SETTLEMENT - 2008 TAXES  
For The Period April 25, 2008 Through April 29, 2009  
(Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	2,260,925
3.6% on	\$	2,779,439
1% on	\$	202,313

\*\* Special Taxing Districts:

Extension District	\$	(14)
Refund Due Sheriff	\$	(14)

OWEN COUNTY  
NOTES TO FINANCIAL STATEMENT

April 29, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Owen County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

OWEN COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 April 29, 2009  
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Owen County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 29, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 13, 2008 through April 29, 2009.

Note 4. Interest Income

The Owen County Sheriff earned \$2,434 as interest income on 2008 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Owen County Sheriff collected \$33,134 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Owen County Sheriff collected \$1,581 of advertising costs and \$1,659 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). These amounts were used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff deposited unrefundable duplicate payments and unexplained receipts in an interest-bearing account. The Sheriff's escrowed amounts were as follows:

1999	\$751
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KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned, and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Carolyn Keith, Owen County Judge/Executive  
Honorable Zemer Hammond, Owen County Sheriff  
Members of the Owen County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Owen County Sheriff's Settlement - 2008 Taxes for the period April 25, 2008 through April 29, 2009, and have issued our report thereon dated November 11, 2009. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Owen County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Owen County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Owen County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Tax Receipts



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Owen County Sheriff's Settlement - 2008 Taxes for the period April 25, 2008 through April 29, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- Receipts Should Be Batched Daily, Posted To A Daily Checkout Sheet, And Deposited Daily

The Owen County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Owen County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

November 11, 2009



## COMMENTS AND RECOMMENDATIONS



OWEN COUNTY  
ZEMER HAMMOND, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period April 25, 2008 Through April 29, 2009

STATE LAWS AND REGULATIONS:

Receipts Should Be Batched Daily, Posted To A Daily Checkout Sheet, And Deposited Daily

Testing of receipts indicated receipts were not being batched daily, posted to a daily checkout sheet, or deposited daily. Under the authority of KRS 68.210, the Department for Local Government (DLG) has established requirements for all local government officials handling public funds. These requirements include "daily deposits intact into a federally insured banking institution." We recommend the Sheriff implement procedures to ensure receipts are batched daily, posted to a daily checkout sheet, and deposited within three business days in order to meet the requirements established by DLG.

*Sheriff's Response: Deposits on tax account will be made on a daily basis.*

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties Over Tax Receipts

The Sheriff's office has a lack of adequate segregation of duties over tax receipts. The employee responsible for handling tax receipts also records the receipts in the ledger, prepares the bank deposit, and performs the monthly bank reconciliation. By the same employee performing these functions, the risk that errors or fraud may go undetected increases.

Segregation of duties over receipts or implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection to employees in the normal course of performing their duties and can also help prevent inaccurate financial reporting and/or the misappropriation of assets.

To adequately protect employees in the normal course of performing their duties, and/or prevent inaccurate financial reporting or the misappropriation of assets, we are recommending that the Sheriff implement strong oversight over these areas, either by an employee independent of those functions or by the Sheriff, such as:

- Periodically comparing a daily bank deposit to the daily checkout sheet and then comparing the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The review should be documented by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger.
- Periodically perform surprise cash counts and recount cash. This should be documented by initialing the deposit ticket.
- Periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. This should be documented by initialing the bank reconciliation and the balance in the checkbook.

*Sheriff's Response: Person taking deposit will compare check-out sheet and ledger to deposit slips and initial daily check out sheet.*

